

**Illinois Budget Address**  
**Wednesday, February 18, 2004**  
**Rod R. Blagojevich, Governor**

Speaker Madigan. Senate President Jones. Leader Cross. Leader Watson.

Lieutenant Governor Quinn. Attorney General Madigan. Secretary of State White. Treasurer Topinka. Comptroller Hynes. Auditor General Holland. Superintendent Schiller.

Ladies and gentlemen of the Senate. Ladies and gentlemen of the House.

Good afternoon.

Over the next eight hours, I will detail the contents of the Fiscal Year 2005 budget.

I'll talk about revenue options. Spending options. Headcount reductions. Agency consolidations.

I'll talk about the need for leadership and sacrifice.

The need for discipline and reform.

But before I do any of that I want to make one thing very clear to everyone here today:

The change and reform we began last year must continue.

And like last year, there are no easy answers.

We are going to have to make tough decisions.

We are going to have to make painful cuts.

We are going to have to ask those who for a long time have benefited from the system to give something back – to lead in the shared sacrifice.

That's what we have to do.

Now, here's what we won't do.

We will not balance the budget on the backs of the hard working people of this state.

We will not balance the budget by asking the hard working men and women of Illinois to pay more in

income taxes and sales taxes.

We will not balance the budget by doing anything that asks the people we represent – the people who place their trust in us –

to be the ones who bear the burden of years of waste and mismanagement, corruption and misplaced priorities.

We have to show the people of Illinois that we respect their hard work and their hard earned money.

We have to show them that we can – and will do more with less.

We have to show them that we can get our own house in order.

We started that process a year ago.

In last year's budget, we faced a record \$5 billion budget deficit – a budget deficit that was 13 times worse than anything Illinois had ever faced.

Thanks to many of you in this chamber instead of dealing with that deficit by taking the easy way out, and going back to the taxpayers to ask them to once again bail out a system that desperately needed reform,

we finally began making changes to our budget,

and to our government, that were long overdue.

We eliminated over \$1.5 billion in waste and inefficiency.

We merged and consolidated state agencies, departments, boards and commissions.

We reduced the number of positions on the state's payroll to the lowest level in more than thirty years.

We began the practice of requiring every state agency to produce monthly spending plans – so we could make sure they lived within their means.

We started budgeting on a quarterly basis.

That way – our budgets are based on fiscal reality – so spending stays in line with revenues.

We required every state agency to set aside 2% of their budgets in case of emergencies.

We invested \$50 million in the Rainy Day fund, and every year – we are determined to add at least \$50 million more to it.

We did all of this, we enacted all these reforms and made all these changes so that we could balance a record budget deficit, without raising the income tax and without raising the sales tax.

Most of the pundits said it couldn't be done.

Thanks to you – we did it.

We enacted those reforms and made those changes so we could set the right priorities.

We enacted those reforms and made those changes so we could invest almost \$400 million in new funding for education.

We enacted those reforms and made those changes so that we could provide health care for 65,000 more children and 300,000 more working men and women.

We enacted those reforms and made those changes so that we could invest more resources in public safety and counterterrorism, and keep the people of this state safe.

And we did all of that while balancing the budget.

For that, you all deserve a standing ovation.

Now, that was last year's success.

This year, in the budget ahead, we face a \$1.7 billion budget deficit.

Like all states, our Medicaid costs continue to soar.

Like all states, expenses like employee health insurance continue to grow.

Like all states, as the economy continues to struggle, revenues stay flat.

But unlike other states, we are still in the process –

of reforming and fixing a corrupt system – a system that spent and wasted – a system that rewarded the few – at the expense of everyone else.

That's why – in the coming months – we must not only solve this year's budget deficit, we must begin budgeting in a way –

that recognizes that the decisions we make today – impact our budgets and our plans for tomorrow.

In short, getting our fiscal house in order means not just living from one year to the next, but thinking about and planning for the future, just like the average family does.

That all begins with one simple step: putting an end to the days where spending outpaces revenue, and deficits become as inevitable as death and taxes.

It means being disciplined, it means being tough, it means being responsible.

It means that when we pass legislation that requires new spending, we need to know exactly where that money is coming from.

That's why today – I am calling on the legislature to do something Illinois has never done before – and that's pass the Balanced Budget Act.

The Balanced Budget Act is really very simple: it requires every spending bill or every spending increase –

considered by the General Assembly – to include in the bill a corresponding revenue increase or spending reduction to pay for it.

Think about what you do in your own family.

The session is over. You're home for the summer.

This is the year you decide to buy a new car.

You know you don't have any extra money – I vetoed our pay raises.

So in order to pay for that new car, you probably have to make some adjustments in how you spend money.

Maybe you go out for dinner less. Maybe you don't take a vacation. Maybe you don't buy a new suit. Maybe you go to a few less Blackhawks games.

Maybe – God willing the Blackhawks will show up for a few less games themselves.

Whatever you do, you figure out what you need to do to pay for that new car.

Why should state government be any different?

When we decide to increase spending we should know exactly how we are going to pay for it.

Not just on May 31 when we balance the budget, but for every bill, every time we spend money.

This applies to you. It applies to me.

If we take this step, if we start living within our means, we can finally begin treating the taxpayers' money as carefully as we treat our own.

It's the right thing to do. It's the responsible thing to do. And I think the taxpayers will appreciate it.

But that's not enough.

Once we make sure we're spending within our means, we have to make sure the taxpayers' money is spent responsibly.

That's why I'm calling on the legislature to pass the Responsible Spending Act.

This bill would make all of the reforms we implemented last year permanent.

It brings discipline and accountability to the budget process. And it would take last year's reforms even further.

First, for every billion-dollar increase in the budget, it would require the state to deposit another \$50 million in the Rainy Day Fund.

If our spending increases, our reserves should too.

Second, every state agency should be legally required to set aside 2% of all funds within their budgets in case of emergencies.

Third, every agency must be required by law to allocate their budgets quarterly – and to prepare and execute a monthly spending plan.

Imagine what would happen to your own budget – if you only balanced your checkbook once a year.

Why should we treat the state's budget any differently?

And finally, we have to pay our bills on time.

We can't keep unloading our problems on our hospitals, our nursing homes, our pharmacies, our childcare providers, and everyone else who does business with the state.

That's why I'm proposing the On Time Bill Payment Act.

If a hospital, nursing home or business does good work for our state and we approve the bill they send – they ought to get paid within 30 days – and never later than 60 days.

This differs from the Prompt Payment Act, because it allows us to draw on a line of credit if we need it.

This way, we'll have the resources to always pay our bills on time, and pay an interest rate of only 2% instead of the penalty of 12% we currently pay when the state pays its bills late.

That's the way you'd run a responsible business. It's the way we ought to run government.

All together, I'm proposing five reforms.

Spend only what you have. Pay your bills on time. Save for a rainy day. Budget for emergencies. And make adjustments throughout.

These reforms will help us for years to come,

but spending responsibly can't be just about the long-term.

To bring our spending back in line with our resources – to help balance this year's budget we need to keep consolidating state agencies and facilities, keep driving down the number of state employees, and stop spending the taxpayers' money on things that aren't absolutely necessary.

Public safety is absolutely necessary. It is the first duty of government.

Eight separate state agencies and departments and offices are primarily responsible for keeping the people of this state safe.

They do a good job, and we are grateful to the brave men and women who put themselves on the line

every day – to protect the people of Illinois.

But we can do it more efficiently – and we can do it better.

Every public safety dollar that we spend on duplicating functions and services is a dollar that doesn't go to keeping people safe.

That's why we should merge Central Management Services Police, and the Illinois Commerce Commission Police into the Illinois State Police.

These mergers will reduce administrative and facilities costs – so that we can spend more of our public safety budget on the thing that matters most: keeping the people of Illinois safe.

But just moving officers from one agency to another isn't enough.

It's also time we made major structural changes at the Illinois State Police.

Our state police officers are dedicated, hard working, and professional.

We are wasting the talents of too many of our State Police officers by sticking them behind desks in middle management positions.

We need to put as many officers as possible – on the frontlines – where they can patrol our highways and protect the people of this state.

That's why I'm proposing that we reorganize the Illinois State Police.

That we eliminate administrative positions we don't really need, move sworn officers currently performing administrative functions out into our communities, offer limited Early Retirement, and bring in two new cadet classes.

If we do this, over the next four years, we can put 400 more state troopers on the frontlines – preventing accidents and fighting crime.

And with the money we save by merging these agencies and cutting down on middle management – we'll be able to pay for new equipment and technology like – the ICLEAR system – the Automated Fingerprinting Identification system, the Amber Alert system, the DNA testing system, and 425 new patrol cars.

These changes will also help us pay for 20 new arson and fire inspectors in the Office of the State Fire Marshal, and they will allow us to allocate \$700,000 to help local fire departments train new fire chiefs.

But we can't stop there.

We can save the taxpayers millions of dollars by making simple Management 101 changes at the Department of Corrections.

During the past year – we began the process of making the Department of Corrections more efficient.

We've reduced middle management. We've cancelled contracts.

But even with those changes, reforming the Department of Corrections is not a sprint. It's a marathon.

And we have many miles to go.

If we consolidate administrative functions like accounting and human resources, update office procedures and further reduce middle management, we believe we can not only add 102 new parole agents and 13 supervisors, we can save \$11 million this year, and \$40 million over the next three years.

Just as we can't keep paying for positions we don't need, we can't keep opening and operating prisons we don't need.

We have old prisons in Illinois that are simply too costly to operate. We have new facilities sitting vacant.

Prisons ought to be built or operated when you need them to house inmates – not because it's the only thing people are left to rely on when it comes to economic development.

I know Illinois can do better than that.

If we sell the Valley View youth facility, which is already closed, close and sell the youth facilities in St. Charles, and move those juvenile detainees to Kewanee.

And if we close the outdated correctional center in Vandalia and move those prisoners to the new Lawrence facility, we can save up to \$50 million.

Using our assets and facilities more efficiently is a way to do more with less.

A recent report from Auditor General Bill Holland showed just how badly we've misused and undervalued our physical assets over the years.

I want to thank Auditor General Holland for his hard work.



But fixing the problem of undervalued assets doesn't just mean that we now recognize owning Lincoln's tomb or the Cahokia Courthouse.

It means reducing our costs, it means closing facilities that aren't necessary, it means shifting to facilities that are less expensive to operate, it means spending the people's money intelligently.

Budgets are all about setting priorities.

You cut some areas in order to pay for increases in others.

And while there aren't many areas that will see increases in this budget, and while nearly every cut and every revenue measure will be debated and discussed,

we will not balance this budget at the expense of educating our children.

That's why I am proposing – despite a \$1.7 billion budget deficit – that we build on the progress we made last year and increase spending for K12 education – by another \$400 million.

We need to invest more money in our schools – and we need to make sure that the money we invest in our schools goes into the classroom where it belongs.

So my proposal to you is this: let's increase spending for K12 education by \$400 million.

If we do this, if we make the cuts and pass the revenue changes needed to pay for this – we will have increased education spending by nearly \$800 million during two years of fiscal crisis.

All of this – without increasing the income tax or the sales tax.

Who would have thought that would have been possible a little over a year ago?

So as we debate how to make our school system more accountable, how to make it more efficient, and how to do better for our kids, let's discuss how this money should be spent.

Reforming schools and funding schools go hand in hand.

Now, I've asked you to make sweeping changes in the way we manage our schools.

I've asked you to demand accountability.

I've asked you to challenge the status quo.

And since I've asked you to do all of that, – it's only right that we work together to decide how this money should be spent.

Over the next few months, as we go through this process there's nothing I'm looking forward to more than doing just that.

In today's fast paced, high-tech 21st century economy, it's no longer enough to send our young people out into the world armed only with a high school diploma.

We need to do everything we can to encourage high school graduates to continue their education – and go on to college.

I'm a big supporter of the MAP program.

It gives students who otherwise couldn't afford it a way to pay for college.

Right now, students attending private colleges and universities are eligible for more money from the MAP program than students who attend public colleges and universities.

Students should be allowed to attend any school they want, but by giving extra money to students attending private colleges – we're taking that money away from other students who need help paying for college.

Every student should get the same amount of money – no matter whether you go to the University of Chicago or Chicago State, whether you attend Northwestern University or the University of Illinois.

This is an important change. Because if we make it, we can give an additional 1,000 students a realistic chance of paying for college.

Our commitment to higher education goes beyond enhancing the MAP program.

Through our regional economic development plans, we have already proposed investments of \$187 million to our universities and community and city colleges across Illinois.

But as we work with our universities to help them develop new technologies, work with their communities, and find good jobs for their graduates –we also must find ways to reduce their spending in areas we can live without.

That's why we are proposing a \$26 million reduction in administrative costs this year – part of a cost cutting initiative submitted to us by the Board of Higher Education, in consultation with all nine public universities.

It's also why we are proposing eliminating or deferring certain grant programs that in tough budget times are not essential.

We're eliminating grants like the \$2 million in funding for the Argonne Advanced Photon Source Project.

In 1998, that began as a five-year research project. We fulfilled that five-year commitment already – and even contributed a sixth year.

That's better than anyone expected.

We are just not in a position where we can afford to renew it year after year.

At the same time, we are reappropriating \$13 million for Argonne's Illinois Rare Isotope Accelerator Science Center, which is in the running for a major project grant from the U.S. Department of Energy.

In other words, we're not cutting everything, but we're not just saying yes to anyone and everyone who's either gotten taxpayer money in the past or wants to get taxpayer money now.

That's why we're preserving \$7 million for students who are going into health care careers.

And it's why we're not going to keep providing \$10 million in subsidies to private training schools.

In short, we're going to pay for the essentials.

But in times like these, when you have to make choices, we're not just going to keep giving out the taxpayers' money, simply because – and this is something we hear a lot that's how it's always been done.

How things have always been done isn't enough of a reason to spend the taxpayers' money.

Think about it.

How can you justify that mindset, when there are people who don't have health care, don't have childcare, can't afford the cost of prescription drugs, when there are people who need our help.

So when it comes to our state's health care budget, my philosophy is very simple: we will not turn our backs on seniors who need health care.

We will not turn our backs on working parents who need health care.

We will not turn our backs on children who need health care.

With health care costs soaring nationwide – we expect our Medicaid costs to increase by more than \$650 million – much of that because of the high cost of prescription drugs.

But as we expand health care coverage for those who need it, as we provide more funding for people with developmental disabilities, for the elderly we need to know exactly what we're getting for our money.

Now I know this might ruffle a few feathers, but the days of social service providers getting blank checks, with no questions asked – have to come to an end.

The system needs accountability.

Social service providers have a right to get paid on time.

And we have a right to know that we're getting what we're paying for.

The Department of Human Services distributes more than \$1.7 billion each year in grants to a list of 1,700 community-based agencies – both nonprofit and for profit.

A handful of these agencies receive the majority of taxpayer dollars.

And just as the state, over the years, has become inefficient in many ways, so have many of our social service providers.

You shouldn't just receive a state grant simply because you got one the year before.

All of us have to be accountable for how we spend the taxpayers' money.

Going forward, grants will go to the agencies or companies that can provide the best services – while still providing the best value for the taxpayers.

We are also making changes that will help Illinois get the maximum benefit from the federal Medicaid program.

Under our current system when the state gives a grant to an organization that's providing help to people with developmental disabilities – or giving services to the blind, –

we often don't receive any federal reimbursement – even though those services are covered by Medicaid.

If we switch to a fee-for-service model – we will be reimbursed by the federal government for more of the Medicaid services we provide.

This will allow us to bring in an additional \$60 million in federal funds this year alone.

And through House Bill 701, which I signed several weeks ago, we will be eligible for more federal Medicaid reimbursements –and bring in an additional \$80 million in federal funds to meet our existing health care obligations.

Not every social service provider is going to like these changes.

They've been receiving taxpayer dollars – year after year – with few, if any – questions.

Most of those providers provide the service they're supposed to.

But by asking questions, by demanding accountability, and by doing more with the resources available to us, we can afford to offer health care – and social services to more people who need them.

In looking at our national economy – it's clear – we're not out of the woods yet.

That economic recovery they keep talking about in Washington – hasn't made its way to Illinois.

We need to keep finding ways to create new jobs – good jobs – and keep them here.

But help from the state has to be targeted, it has to be responsible, and it has to be intelligent.

We can't just run around, granting tax breaks wily nily – just because somebody knows the lobbyists for the industries that want them.

We can't keep building more prisons and more casinos, and sell them to the public as economic development.

We need targeted, directed, regionally focused ideas that play to the strengths and address the weaknesses – of each part of our state.

That's why we've developed a program called Opportunity Returns,

a proactive, hands-on, regionally focused plan with one goal and one goal only creating jobs.

We've been working with local communities, and, with their ideas and yours, we've been developing and launching detailed plans that address the specific needs of each region of our state.

We are providing low interest loans so manufacturers can buy new equipment, and funds for job training so workers can upgrade their skills.

We are offering grants to budding entrepreneurs, building the infrastructure needed to move goods and services efficiently.

We have been working hard to make each region of our state more marketable, more technologically savvy, more accessible, to make sure our workers are better trained, and our companies are better equipped.

The people of Illinois are tired of waiting for the economic recovery to start producing real jobs.

We can't keep waiting for Washington to act.

When it comes to economic recovery, we need to take action.

That's exactly what we've been doing, and it's exactly what we will continue to do.

I don't think anyone will disagree that we need to do more to create jobs, but even as we invest more in job creation, we need to find other places in the budget where we can cut, consolidate, and conserve.

And we can make a number of those cuts in the offices of our state government.

Every state agency doesn't need its own government relation's office, its own press office, its own facilities management division, its own everything.

We are one government. Not a series of fiefdoms.

Every dollar of the taxpayers' money – that we spend on duplicating functions and services is a waste of money.

That's why we are merging the Departments of Professional Regulation, Financial Institutions, Banks and Real Estate, and Insurance –into one, new agency called the Department of Financial and Professional Regulation.

It's why we're moving the Department of Agriculture's Land Division into the Department of Natural Resources.

The savings from this move will help us pay the damages we now owe Mongo.

It's why we're merging the Circuit Breaker program and the Low Income Home Energy Assistance Program into the Department of Public Aid,

the Comprehensive Health Insurance Program into the Department of Financial and Professional Regulation, the Illinois Building Commission into the Capital Development Board, and the functions of the ICC Railroad Commission into the Department of Transportation.

It's why we're consolidating the press offices of nearly 25 different state agencies and boards – all into one.

When I came into office, 66 different agencies, departments, boards and commissions all reported to the Governor.

66.

With these consolidations, and the others I've outlined today, we'll bring that number down to 46.

These changes will save us approximately \$15 million, but perhaps even more importantly, it will help us manage better, and deliver better services to the people.

But just as we have more departments and agencies than we need, we also have more employees than we need.

Doing more with less is a catchphrase many of us like to use.

However – when most people see what “doing more with less” really means, they often don't like it as much.

But if a state agency or a state employee can perform two functions for the price of one, then the taxpayers have every right to expect them to do just that.

I mentioned earlier that we now have the fewest number of state jobs than at any time in more than thirty years.

That's a good start. But I believe we can do even better.

That's why I'm announcing a new limited Early Retirement Initiative, one that is specifically targeted at nonfrontline positions and titles.

That means administrators, secretaries, executive assistants, and administrative assistants. It also means

middle managers we may not need.

We expect this early retirement initiative to save approximately \$25 million. These savings take into account the impact on the pension systems.

In addition, when someone in a nonfrontline position leaves state government— in almost every case, we're going to leave that job unfilled.

And when we can consolidate two positions into one, that's exactly what we are going to do.

I believe we can cut down on the state's payroll – and still give the people of Illinois the service they expect and the results they deserve.

By the time we're done – we expect the state's workforce to come in at well under 60,000 employees.

Doing this will save us approximately \$150 to \$200 million.

In addition, we're proposing a holiday from the Open Space Lands Acquisition program.

Acquiring open lands is important. Developing them is too.

But in a year when the economy is struggling – a year where you have to make tough choices, to us, we think a holiday is reasonable, and it will save us \$34 million.

We're also proposing, a 50% reduction in funding for government programs that help promote tourism.

That's not an easy decision to make.

But our choices came down to raising the hotel tax, eliminating the tax deduction businesses use for meals and entertainment, or reducing spending for government programs related to tourism.

Two of these options to promote tourism are driven by the market. One is driven by the government.

Given the choice, we chose the market.

That's the spending side of this equation. Cuts. Competition. Consolidations. Eliminating positions. Closing facilities. Focusing on frontline services.

If we want to balance this budget without raising the income tax or the sales tax – and if we want to invest more money in our schools,



if we want to give more people access to health care, and bring in more state troopers to fight crime we have to make these changes.

But cuts alone won't get us there.

And so we took a hard look at the tax system in Illinois.

And guess what?

Like the classic scene in Casablanca, when Humphrey Bogart's café is being raided and gambling is discovered, Inspector Renault, played by Claude Rains, who's been visiting Rick's café on almost a nightly basis, utters that classic line:

"I'm shocked – shocked – to find that gambling is going on in here."

Well, we're not in Morocco. And this isn't 1941.

But my guess is that no one here is all that shocked to find out that there are corporate loopholes on the books – corporate loopholes that don't benefit the economy, don't help the taxpayers, don't create jobs, don't keep companies from moving out of state, in short, loopholes that don't make this a better state.

It's time we close those corporate loopholes.

They're not fair. They're not honest.

They're an affront to the 7.8 million people who get up every morning, work hard, and pay their taxes, and can't afford high priced lobbyists like the special interests can.

The only thing the people have on their side is us. We're supposed to look out for their interests.

So how we can justify keeping corporate loopholes on the books – when the people are paying more and more of the tab each and every year – is beyond me.

Last year, the State of Illinois provided 42 different tax breaks to Illinois businesses.

Those tax breaks amounted to almost \$1 billion.

The State of Illinois also provides low interest loans, grants, tax exempt bond issuances, and all kinds of capital investments to help businesses succeed.

Many of those are worthwhile investments.

Our job, however, is to determine which corporate tax advantages are useful and which aren't – to determine which are just loopholes that pad some corporation's bottom line, at the expense of the average taxpayer.

Now I know it's not easy to eliminate these unfair tax breaks. Many of you know the lobbyists who helped pass them.

But knowing a lobbyist – is not enough of a reason to justify a tax break that takes money away from our schools, our hospitals, and from public safety.

We have to make sure – that in tough times – everyone pays their fair share.

In 1980, one in every five income tax dollars in Illinois was paid by corporations.

One in five.

Today, corporations pay only one of every nine dollars in state income taxes.

That means for every dollar paid in corporate income tax – eight dollars are paid by the hard working men and women of this state.

If corporations paid the same one in every five dollars they paid in 1980 – that would mean an additional \$1 billion this year and every year for our schools, our hospitals, our police departments.

Of the Fortune 100 companies that are doing business in Illinois, 40 of them didn't pay any state income taxes in either the year 2000, 2001 or 2002.

That means that over the last three years, the average Illinois resident has paid more in state income taxes than forty of the nation's largest corporations.

That means that your neighborhood butcher who helps feed your family – the nurse who cares for you when you're sick the librarian who checks out books for your kids – paid more money in state income taxes than nearly 40 major corporations.

That means the guy who works in the factory and does all of the heavy lifting actually paid more in taxes than the parent company he works for.

We have to support business. The best way to create jobs in our economy is through the private sector

and a free market. We should support efforts to help the economy grow.

But not at the expense of everyone else.

Corporations exist to make money for their shareholders.

We exist to protect the taxpayers.

Corporations are not responsible for the welfare of the people of Illinois.

We are.

We need a tax system that respects the role corporations play in our economy – recognizes their role in creating jobs – but we also need a tax system that doesn't ask the average taxpayer to disproportionately shoulder nearly all of the burden –to pay for schools, pay for hospitals, pay for roads, pay for police, in short, pay for all of the things that make this state run.

This isn't a Democratic issue or a Republican issue.

This is an issue of fairness.

It's an issue of making sure there's a balance between helping our corporations and helping the people we represent.

Tax breaks that legitimately help businesses succeed and employ more people should stay on the books.

That's why we did not propose eliminating tax incentives that truly help create jobs and spur economic development – incentives like the retailers discount, the tax deduction for meals and entertainment, the manufacturers machinery exemption, the business deduction of interest, the farm machinery and equipment exemption, and many others.

But when there are corporate loopholes that don't seem to do much more than help certain businesses pay less and less of their fair share – while average, hardworking families carry more and more of the tax burden each year, something has to change.

Some of those loopholes never belonged on the books in the first place.

Others may once have been good ideas years ago.

But the economy has changed and if those tax breaks are no longer a good deal for the taxpayers of Illinois those loopholes should be closed.

So today I'm proposing that we close several different corporate loopholes – loopholes that are unfair to the average taxpayer, and take away money from education, from health care, and from public safety.

I'm talking about loopholes – like the one that allows corporations who do business in here, who make money in here, but since they are incorporated somewhere other than Illinois, avoid paying taxes here when they sell their assets.

They can do business here. They can make money here.

But because they're not specifically headquartered in Illinois, in many cases, they can avoid paying taxes here.

It's just isn't fair.

Closing this loophole would save \$20 to \$35 million.

I'm talking about loopholes – like the one that allows corporations who do business in Illinois – and make money in Illinois – to hide their income in places like Bermuda or the Cayman Islands – and avoid paying taxes here in Illinois.

Closing this loophole would bring in \$35 to \$45 million each year.

I'm talking about loopholes – like the one that allows companies to shuffle profits from one division to another within the same company – in order to avoid paying taxes.

Closing this loophole would save \$18 - 24 million.

I'm talking about loopholes like the one that allows giant telecommunications companies to argue that they shouldn't pay income taxes – when someone in Illinois – calls someone else in Illinois –because that call got relayed through equipment in another state.

Closing this loophole would save \$22 - 26 million.

I'm talking about the loophole – the watercraft loophole.

This is the loophole that allows tax lawyers to help their clients avoid paying sales tax – when they buy luxury yachts.

Does anyone really think a loophole that allows this was the product of studies on job creation and economic development?

Does anyone think this loophole was the product of a taskforce – made up of economists from the University of Illinois – the University of Chicago – or the Kellogg School at Northwestern – who studied the impact of yacht sales – and said, “Creating this loophole means we can create lots of jobs for Illinois”?

How in the world did this loophole ever find its way into the tax code?

You may think it’s funny – it’s so ridiculous I think it’s funny – but did you know that this funny little loophole takes \$7 million away from your local schools?

Yachts or schools. We can no longer afford both. I choose schools.

Not every loophole is that obvious. And not every one of them is a bad idea.

But just as it’s our job to eliminate loopholes that don’t belong on the books, it’s also our job to take a look at each loophole, and make sure it serves the public interest, at least as much as it’s serving the private interest.

That’s why we are proposing a decoupling of accelerated depreciation of equipment, and replacing it with an instate investment tax credit.

Closing the accelerated depreciation loophole – would still benefit Illinois businesses – but it would also save the taxpayers \$70 to \$80 million.

In addition, some of the fines in Illinois – and some nonconsumer fees are not only well below those of states that border ours, but are lower than states across the nation.

For example, in Iowa, if you’re convicted of driving under the influence of alcohol or drugs you face a minimum fine of \$500 for a first offense.

In Illinois, while some judges won’t hesitate to throw the book at DUI defendants – as a state, we don’t have a mandatory minimum fine.

I think we should.

So we are proposing a mandatory minimum fine of \$500.

There’s no reason that the average law-abiding taxpayers of Illinois should offer bargains to drunk drivers.

In addition, to help balance the budget, and avoid raising taxes, we need to bring some nonconsumer fees

– like increasing the lottery retailer’s renewal fee – or the currency exchange license fee in line with their counterparts in other states.

These steps will make the system fairer to the average taxpayer, – but reforming our system can’t end there.

On June 30, the collective bargaining agreements that govern the wages and benefits of most state employees will expire.

We are already sitting across the negotiating table from the unions who represent those employees.

Over the next several months – we will bargain with them in good faith.

But as we go through the process – and begin negotiating the issue of wages and benefits for state employees – we must be guided by the same principles that dictate how we treat corporate loopholes, how we treat grants to social service providers, how we treat our own budgets,

We have to make sure that what’s a fair deal for state employees must be weighed against the interests of the people they serve.

Those of us who hold positions to serve the public have to first think about the public.

This is the business we have chosen.

State government doesn’t exist for the benefit of state employees – or for the benefit of those of us who are elected to public office.

It exists to serve the people.

So as we go about compensating state employees, and recognizing their hard work, we have to think about what’s fair, what’s just, what they deserve, and what we can afford.

I’m prolabor. I always have been.

My father was a steelworker. My mother worked as a ticket agent for the Chicago Transit Authority. Both were members of labor unions.

But that doesn’t mean we don’t evaluate the situation facing our state fairly and honestly.

We have to recognize and reward the hard work of our state employees, but we must never forget that when we negotiate these contracts – we’re negotiating with the taxpayers’ money.

There's a delicate balance here.

This isn't a negotiation between a private corporation and its union. The money on the table doesn't belong to us and it doesn't belong to the unions.

It belongs to the people.

So I'm asking the representatives of the public employees unions – as they begin negotiations on behalf of their members – to remember that when we treat ourselves better and differently than everyone else in this state – that only undermines the public's confidence in the government, and the people within it.

All of us who work for the people must work to restore their trust.

That's why last year, I vetoed a pay raise for myself and froze salaries for managerial employees.

That's why we required nonunion employees to begin paying the employee share of their pension contribution.

That's why I vetoed pay raises for judges.

Restoring the public's trust doesn't start and end with passing an ethics bill.

We have to show the people – day in and day out – that we deserve their trust – in all of our actions – and we have to show the people – that they can trust us with their money.

Our decision last year to ask some state employees to start paying their share of their pension contribution – was not made lightly.

That decision is part of the solution to a much larger problem that has been brewing in Illinois for more than 20 years.

Illinois has the largest unfunded pension liability of any state in the nation.

This is primarily due to years where pension payments were skipped entirely, or where generous pension benefits were granted – without having a way to pay for them.

Our pension obligations continue to grow exponentially.

We can't keep traveling down this road.

We have the responsibility to make sure we don't just write blank checks to cover our bills, without knowing whether estimates of our pension obligations are accurate.

That's why I'm appointing an independent commission of experts in areas like finance, public pensions, government, and public policy – to help us develop a comprehensive, long-term plan to address this problem – and help dig us out of this mess.

They will begin work immediately.

We expect to have an initial report from them by June 1.

With all of that said, there is one piece of good news when it comes to our pension obligations.

As you may recall, last year we asked you to approve a pension bond sale.

At that time, we expected to sell \$10 billion in bonds with an interest rate of approximately 5.8%.

Because the market continued to improve, the interest rate fell to just over 5% almost a full percentage point less for the next 30 years.

As a result, for the next four years, the State of Illinois will be able to make its pension contribution, and reduce the amount that has to come from the General Revenue Fund by \$215 million.

Now, I know last year, some of you were kind of skittish about doing this.

It was a new idea. It hadn't been done before.

And back then John Filan – the architect of this idea – well – let me just say it this way you hadn't quite gotten to know him, or grown to love him – as I'm sure you do now.

But thanks to his vision and creativity, the State of Illinois made an extra \$860 million on that transaction.

John, if only you had made us an extra \$1.7 billion, this speech would have been much shorter.

As it is, \$860 million in unanticipated gain is impressive.

But as big as that number is, that windfall will only last for a few years.

It's a good start, but we have a long way to go to solve our pension problem.



All told, the measures in my budget – will allow us to close the \$1.7 billion deficit –

Without raising the income tax – without raising the sales tax – and while doing more for education, health care, and public safety.

Now we begin the legislative process. It will be tempting to cut corners, to allow more of this, and less of that.

To ease some cuts, to spend some more, to please this constituent, or reward that narrow interest.

Not all claims will be wrong. Not all needs are uncalled for. What this budget does is set out our priorities, in a real world, where there is pain and triumph, heartache and hope.

Like all of you, I don't want to say no. My two daughters have taught me that it's easier to say yes. It's easier to give in. Easier to please.

But deep in your heart you know sometimes, it's not the right thing to do.

Yes, some will criticize this budget. That's as sure as the winter snow or the Cubs in the playoffs.

But it is our solemn obligation to make choices, to do what we feel is right, as we balance each interest, each need, each claim.

With that said, we are eager to hear constructive ideas.

So as you look at other options to choose from, it may be helpful to know some of the options available to cut spending or raise revenue – options we looked at – and rejected.

Because we looked at everything.

And we made – what we believe – are the best choices available, within a difficult menu of options.

Let me give you some of the alternatives we looked at – and rejected.

We rejected the idea of eliminating deductions and exemptions for enterprise zones.

We rejected the idea of eliminating the charitable deduction for Illinois corporations.

We rejected the idea of increasing co-payments for parents who use state funded child care services.

We rejected the idea of reducing the number of home services offered to the elderly.

We rejected putting lottery machines at currency exchanges.

We rejected cutting funding for Amtrak.

We rejected increasing the utility tax and the real estate transfer tax.

We rejected the idea of cutting health coverage for the elderly or the poor. The very idea of that is repugnant to me.

We rejected the idea of forcing all universities to take a five-year holiday from capital improvements.

We rejected a road-building holiday.

We rejected the idea of significantly reducing subsidies for Illinois farmers.

We rejected raising the hotel tax.

We rejected eliminating the retailers' discount.

We rejected eliminating the exemption for the purchase of machinery and equipment.

We rejected eliminating the deduction businesses take on interest on money they borrow.

We rejected eliminating the business meals and entertainment deduction.

We rejected forcing local school districts to consolidate.

We rejected forcing local schools to forego new construction.

We rejected cutting education funding.

In fact, this budget increases it by \$400 million.

We rejected cutting funding for health care.

In fact, this budget will help 65,000 children and 300,000 working parents receive the health care coverage they need.

We rejected cutting funding for law enforcement.

In fact, this budget can put 400 more state troopers on the frontlines, add over 100 new parole officers, 20 arson investigators, and pay for new technology, equipment and training.

We rejected raising the sales tax.

We rejected raising the income tax.

We rejected those ideas, and many others.

But for those interests that reject the choices we made, for those who come to you with their hat in hand, this list of what we rejected is their working list.

Their obligation is to tell you what cut or what loophole closing they support.

But let me be clear: we may know a lot of groups impacted by this budget.

They may be our friends or supporters.

But ultimately, our obligation is not to them, or the interests they represent.

I spend a lot of time traveling this state.

I spend a lot of time talking to people.

And here's what I'm hearing out there.

They want leaders with ideas. With proposals. With solutions.

They know that not every idea is going to be perfect. They know we have to make hard choices.

They expect philosophical disagreements. But in the end, they expect leaders who can get things done.

They expect us to become members of what Teddy Roosevelt called the Fellowship of the Doers.

The budget I have submitted to you is 464 pages long.

Its charts, graphs, and numbers add up to a balanced budget.

But this budget is more than dollars and cents, more than figures and statistics.

This budget is an expression of our values, our hopes, and our dreams.

And so I offer to you this cause.

Let us continue to think and act boldly and honestly.

Let us question conventional wisdom.

Let us embrace change and reform.

And let us act in the interests of those who every day – do their job.

Those who raise a child.

Care for an aging parent.

Work the night shift.

Buy the groceries.

Attend church.

Coach baseball.

Heal the sick.

Read to a child.

Volunteer at a food bank.

Look out for a neighbor.

The people of Illinois are good.

It is for them – that we are here.

Our budget is,

when all is totaled and completed,

an expression of our belief in the people of our state.

A belief that with the grace of God,

we can build a better life for every family.

That is our challenge.

Be impatient with the status quo.

Embrace opportunity. Seek change.

Stay committed to the cause.

It might not be easy, but it's the right thing to do.

We have done much

but our work has just begun.

Thank you.

Rod R. Blagojevich, Governor